

Testimony of David W. Joos, CMS Energy President and Chief Executive Officer, Consumers Energy Chief Executive Officer, before the Michigan House Energy & Technology Committee

December 12, 2007

Mr. Chairman and members of the Committee.

Eight months ago I appeared before this committee and concurred with the assessment of the State's 21st Century Energy Plan. That assessment concluded that demand for electricity in Michigan is growing, that our state's aging electric generating fleet is not adequate to meet that growing demand, and that Michigan needs a comprehensive plan if we are to avoid electricity shortages and higher, more volatile power prices for customers in the future.

Since that time, we've seen four new all-time monthly peak load records on our system, further evidencing the growing customer demand that we must be prepared to serve.

I also reported when I testified in April that CMS Energy was divesting its international assets and preparing to invest in Michigan in large-scale projects to improve electric and natural gas distribution reliability, leverage technology to enhance customer service and help customers save energy, improve management of power demand, and meet growing electricity demand with new power plants.

CMS Energy Progress

Much has happened since April 5th and I'm pleased to report that our Company has made significant progress. The major developments include:

- Completed our planned sale of international assets and investment of \$650 million of equity into Consumers Energy to support planned infrastructure development in Michigan.
- Filed our Balanced Energy Initiative with the Michigan Public Service Commission. This is our comprehensive plan for meeting the electric needs of our 1.8 million customers over the next 20 years;
- Closed on the sale of our Palisades nuclear plant while securing its low-cost power for the benefit of our customers for the next 15 years. The Palisades transaction also provided customers more than \$300 million in refunds, one of the largest refunds in our company's history;
- Agreed to buy the Zeeland natural gas plant, pending regulatory approval, adding 946 megawatts of capacity to our electric supply portfolio;
- Continued enrolling customers in Green Generation renewable energy program, one of the fastest-growing voluntary programs in the country. More than 12,000 customers now are enrolled, including the City of Grand Rapids last week;

- Planned for expansion of Consumers Energy's supply of renewable energy both from direct company investment, as well as buying additional renewable energy from other Michigan sources;
- Requested Michigan Public Service Commission approval of energy efficiency programs for electric and natural gas customers that will help our customers save energy and money. The Company is also pursuing development of an Advanced Metering Infrastructure program which will provide customers with comprehensive and timely energy consumption information and allow them to be more informed consumers;
- Announced plans to construct an 800 megawatt clean coal plant at our Karn/Weadock Generating Complex near Bay City. This was shortly followed by filing an air permit request with the Michigan Department of Environmental Quality, and released an economic impact study detailing \$1.2 billion in direct and indirect benefits to Michigan during construction of the plant.

As this list demonstrates, we are aggressively moving forward to meet the critical energy needs of our customers.

\$6 Billion Investment Plan for Michigan

In total, Consumers Energy plans to invest \$6 billion in Michigan over the next five years, much of it to implement the Balanced Energy Initiative. The Balanced Energy Initiative is not only important to meeting the state's energy needs and keeping energy prices affordable, it represents one of the largest job-creation and economic investment programs that Michigan will see over the next several years. The initiative's focus on expanding renewables, energy efficiency programs and clean coal will reduce the carbon footprint for Consumers Energy and the state and continue the significant contributions we've made to improving Michigan's air and water quality.

Need for Comprehensive State Policy

However, we can only go so far without a comprehensive state policy in place that sets priorities for meeting future needs, and that establishes a forward-looking statutory and regulatory framework.

Previously before this committee I talked about the barriers that PA 141's unique hybrid market presents to attracting capital for these major investments, and discussed the need to repeal or significantly reform the state's electric deregulation law. This must be done before Consumers Energy can fully implement its \$6 billion Michigan investment plan.

It's worth re-stating the following concerns with PA 141:

- Michigan's hybrid electricity regulatory structure results in uncertainty that does not support major capital investment in needed electric generating capacity. The structure is an anomaly from every other state in the country.
- Not a single residential customer in our service territory has been able to save on their electric bill under the current structure. Instead, they have been exposed to

higher and more volatile market prices due to lack of investment in lower cost baseload generating capacity.

- The current structure has benefited a very small percentage of our customers. Now over seven years into the current structure, only about 3 percent of our distribution load is being served by alternate suppliers.
- Only a small minority seek to protect the status quo, those who argue for “choice” without accountability, and at the expense of small business and residential customers.
- States that experimented with deregulation have seen much larger increases in power costs and are rolling back these failed laws;

This Committee has also devoted a great deal of time and effort to understanding complex energy issues, hearing perspectives from a wide variety of stakeholders. The legislation developed by workgroups is a product of painstaking discussions of policy options for expanding renewables, energy efficiency, and market structure. Balancing stakeholder interests is always a challenge, and Chairman Accavitti, committee members and especially workgroup members are to be commended for all the work you have done.

Reform Bills

We support the package of reform bills that has been introduced. Taken together, they will establish a comprehensive energy policy that sets priorities for meeting the state’s future resource needs and creates a statutory and regulatory framework in which to implement the policy. The provisions of these bills are interrelated - the success the policy requires all of the measures to be in place. I congratulate this committee on developing an approach that balances the interests of diverse stakeholders and helps safeguard Michigan’s energy future.

As introduced, these bills accomplish several important goals:

- Create a framework that maintains an opportunity for customers to choose alternate energy suppliers, while providing utilities adequate certainty to plan and secure financing for major construction projects, chiefly new power plants;
- Ensure that electric rates are based on the actual cost of serving customers, also often referred to as “deskewing” rates. Under cost-based rates and the elimination of rate skewing, Michigan schools would see up to a 25 percent reduction in Consumers Energy rates, new jobs and investment would be created, and a transition period would mitigate rate impacts on other customers.
- Revise the regulatory process to assure timely recovery of costs to serve customers, allowing utilities to dedicate sufficient funds to electric service reliability. This provision would align with a process already used to set 60 percent of our electric rates, and would be consistent with procedures used by many other states and the Federal Energy Regulatory Commission.
- Create a certificate of public convenience and necessity requirement for building or acquiring new generating resources, allowing all stakeholders to have input into decisions before a utility commits to a new power plant or long-term supply

contract. This provision ensures that major components of new power plants are competitively bid.

- Establish a framework for building renewable energy, energy efficiency and demand management into the state's electric supply portfolio.

Keeping Rates Affordable

In closing, I'd like to emphasize Consumers Energy's commitment to keep rates affordable. Consumers Energy's retail electric rates are below the national average. Our investment plans will allow us to provide reliable, high quality service at affordable rates in the future.

Thank you Chairman Accavitti and committee members for the work you've done so far. Passage of this package of reform bills is essential for Michigan to secure its energy future.

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